

# PERAC AUDIT REPORT



## Concord Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2015





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

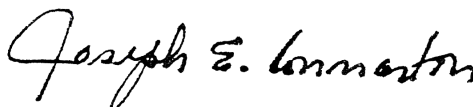
October 30, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Concord Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

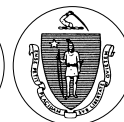
In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners George Nsia and Carol Poladian who conducted this examination and express appreciation to the Retirement Board and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Monthly Financial Reporting:**

A review of the monthly Board Minutes indicated that a complete financial package is not provided to the Board on a monthly basis. The Board does receive an Investment activity update each month; however, there were only 8 of the 48 regular board meetings during the audit period where other financial information (trial balance and expense report) was reviewed.

**Recommendation:** Each month the Board administrator should prepare a packet which consists of the following items:

- Cash reconciliation including bank statements
- Trial Balance
- Cash Receipts
- Cash Disbursements
- Adjusting Journal Entries
- Budget to Actual Expense Comparison (if not monthly, quarterly)
- Cash Flow Forecast

This process will assist the Retirement Board in the exercise of their fiduciary responsibilities. The distribution of additional financial data will provide a basis for formalizing the supervision of the system by the Retirement Board. It will also help to determine that Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Retirement Board.

## **Board Response:**

Management concurs with the recommendation of the examiners' and will take the necessary steps to ensure that the Board receives a packet at each Board meeting consisting of the cash reconciliation, trial balance, cash receipts, cash disbursements, adjusting journal entries, budget to actual expense comparison (at least quarterly if not monthly) and a cash flow forecast.

## **2. Member Contributions:**

A review of payroll, based on a sample from all units, revealed the following:

- One school employee had no retirement deductions taken at all from her payroll earnings.
- One school employee had no additional 2% deduction taken.
- Errors were found in the calculation of the additional 2% withholding for four school employees.

**Recommendation:** The staff of the retirement board should conduct periodic payroll audits to affirm that members' retirement deductions are withheld accurately.

## **Board Response:**

Management concurs with the recommendation of the examiners' and will instruct retirement board staff to conduct periodic payroll audits to affirm that members deductions are being withheld accurately.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***



# STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2015	2014	2013	2012
<b>Net Assets Available For Benefits:</b>				
Cash	\$1,521,631	\$3,219,393	\$2,640,760	\$3,307,159
Fixed Income Securities	27,988,261	28,043,396	26,929,057	26,618,720
Pooled Domestic Equity Funds	40,030,307	40,502,311	35,913,805	26,850,901
Pooled International Equity Funds	7,101,501	7,065,744	6,804,237	5,474,323
Pooled Alternative Investment Funds	1,811,599	2,061,815	2,292,702	2,145,978
Pooled Real Estate Funds	6,863,071	6,164,130	5,410,926	4,909,850
PRIT Core Fund	48,611,394	45,826,532	41,951,294	36,292,602
Interest Due and Accrued	195,028	190,386	214,961	242,649
Accounts Receivable	4,258	523	0	175
Accounts Payable	(363,717)	0	(2,378)	(2,344)
<b>Total</b>	<u>\$133,763,333</u>	<u>\$133,074,229</u>	<u>\$122,155,364</u>	<u>\$105,840,014</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$29,242,180	\$28,041,994	\$27,130,580	\$25,757,015
Annuity Reserve Fund	6,615,554	5,967,211	5,227,530	4,809,082
Pension Fund	1,393,241	1,734,956	230,444	2,133,913
Military Service Fund	4,484	4,479	4,475	4,470
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>96,507,875</u>	<u>97,325,589</u>	<u>89,562,335</u>	<u>73,135,534</u>
<b>Total</b>	<u>\$133,763,333</u>	<u>\$133,074,229</u>	<u>\$122,155,364</u>	<u>\$105,840,014</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$24,482,322	\$4,700,242	\$2,221,360	\$4,466	\$0	\$63,296,428	\$94,704,818
Receipts	2,877,737	139,393	3,701,882	4	663,812	10,879,529	18,262,358
Interfund Transfers	(1,018,602)	880,042	1,178,984	0	0	(1,040,424)	0
Disbursements	(584,442)	(910,594)	(4,968,313)	0	(663,812)	0	(7,127,162)
Ending Balance (2012)	25,757,015	4,809,082	2,133,913	4,470	0	73,135,534	105,840,014
Receipts	2,922,015	147,400	4,207,965	4	721,885	15,473,335	23,472,604
Interfund Transfers	(1,240,432)	1,237,838	(950,872)	0	0	953,466	0
Disbursements	(308,018)	(966,790)	(5,160,562)	0	(721,885)	0	(7,157,255)
Ending Balance (2013)	27,130,580	5,227,530	230,444	4,475	0	89,562,335	122,155,364
Receipts	3,050,603	166,068	4,335,321	4	795,944	10,456,165	18,804,107
Interfund Transfers	(1,674,267)	1,660,013	2,707,165	0	0	(2,692,911)	0
Disbursements	(464,922)	(1,086,400)	(5,537,974)	0	(795,944)	0	(7,885,241)
Ending Balance (2014)	28,041,994	5,967,211	1,734,956	4,479	0	97,325,589	133,074,229
Receipts	3,388,667	190,498	4,819,366	4	850,356	(3,401)	9,245,490
Interfund Transfers	(1,679,920)	1,688,813	805,421	0	0	(814,314)	0
Disbursements	(508,560)	(1,230,969)	(5,966,501)	0	(850,356)	0	(8,556,386)
Ending Balance (2015)	\$29,242,180	\$6,615,554	\$1,393,241	\$4,484	\$0	\$96,507,875	\$133,763,333

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
<b>Annuity Savings Fund:</b>				
Members Deductions	\$2,842,351	\$2,778,913	\$2,599,842	\$2,490,426
Transfers from Other Systems	481,204	231,291	241,906	315,795
Member Make Up Payments and Re-deposits	22,796	7,804	54,920	37,399
Investment Income Credited to Member Accounts	42,316	32,595	25,347	34,117
Sub Total	<u>3,388,667</u>	<u>3,050,603</u>	<u>2,922,015</u>	<u>2,877,737</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	190,498	166,068	147,400	139,393
Sub Total	<u>190,498</u>	<u>166,068</u>	<u>147,400</u>	<u>139,393</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	240,949	209,557	190,454	170,681
Pension Fund Appropriation	32,617	73,819	73,694	100,856
Settlement of Workers' Compensation Claims	4,537,799	4,051,945	3,943,818	3,430,345
Recovery of 91A Overearnings	8,000	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,819,366</u>	<u>4,335,321</u>	<u>4,207,965</u>	<u>3,701,882</u>
<b>Military Service Fund:</b>				
Investment Income Credited to the Military Service Fund	4	4	4	4
Sub Total	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	850,356	795,944	721,885	663,812
Sub Total	<u>850,356</u>	<u>795,944</u>	<u>721,885</u>	<u>663,812</u>
<b>Pension Reserve Fund:</b>				
Interest Not Refunded	5,866	1,200	0	4,444
Miscellaneous Income	12	0	0	0
Excess Investment Income (Loss)	(9,279)	10,454,966	15,473,335	10,875,085
Sub Total	<u>(3,401)</u>	<u>10,456,165</u>	<u>15,473,335</u>	<u>10,879,529</u>
<b>Total Receipts, Net</b>	<u>\$9,245,490</u>	<u>\$18,804,107</u>	<u>\$23,472,604</u>	<u>\$18,262,358</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$160,794	\$121,809	\$27,969	\$214,239
Transfers to Other Systems	<u>347,766</u>	<u>343,113</u>	<u>280,050</u>	<u>370,203</u>
Sub Total	<u>508,560</u>	<u>464,922</u>	<u>308,018</u>	<u>584,442</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	1,210,816	1,083,311	966,790	895,134
Option B Refunds	<u>20,153</u>	<u>3,090</u>	<u>0</u>	<u>15,461</u>
Sub Total	<u>1,230,969</u>	<u>1,086,400</u>	<u>966,790</u>	<u>910,594</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	4,711,854	4,323,966	3,960,142	3,818,181
Survivorship Payments	138,373	130,838	115,866	106,849
Ordinary Disability Payments	81,363	91,130	89,278	99,278
Accidental Disability Payments	496,132	521,891	529,665	520,946
Accidental Death Payments	148,768	165,296	163,136	160,976
Section 101 Benefits	23,265	22,905	26,295	22,185
3 (8) (c) Reimbursements to Other Systems	366,746	281,948	276,179	239,899
Sub Total	<u>5,966,501</u>	<u>5,537,974</u>	<u>5,160,562</u>	<u>4,968,313</u>
<b>Expense Fund:</b>				
Salaries	77,410	76,933	73,807	77,670
Legal Expenses	3,122	6,766	1,378	8,042
Medical Expenses	45	0	0	0
Travel Expenses	3,267	3,122	1,722	2,500
Administrative Expenses	89,987	84,666	83,570	79,331
Professional Services	3,210	3,000	3,000	3,000
Actuarial Services	17,525	14,875	5,650	12,500
Education and Training	1,620	1,019	990	3,420
Furniture and Equipment	0	0	0	755
Management Fees	614,625	583,219	530,367	456,116
Custodial Fees	16,053	0	0	0
Service Contracts	19,425	18,500	17,625	16,785
Sub Total	<u>850,356</u>	<u>795,944</u>	<u>721,885</u>	<u>663,812</u>
<b>Total Disbursements</b>	<u>\$8,556,386</u>	<u>\$7,885,241</u>	<u>\$7,157,255</u>	<u>\$7,127,162</u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
<b>Investment Income Received From:</b>				
Cash	\$6,448	\$5,067	\$4,875	\$6,276
Fixed Income	878,699	1,077,112	1,062,698	1,237,277
Pooled or Mutual Funds	2,241,996	2,119,029	1,943,958	1,750,044
<b>Total Investment Income</b>	<u>3,127,143</u>	<u>3,201,207</u>	<u>3,011,532</u>	<u>2,993,597</u>
<b>Plus:</b>				
Realized Gains	2,953,286	5,582,761	4,875,386	2,276,638
Unrealized Gains	12,431,308	11,373,022	15,866,080	13,237,675
Interest Due and Accrued - Current Year	<u>195,028</u>	<u>190,386</u>	<u>214,961</u>	<u>242,649</u>
Sub Total	<u>15,579,622</u>	<u>17,146,169</u>	<u>20,956,427</u>	<u>15,756,961</u>
<b>Less:</b>				
Paid Accrued Interest on Fixed Income Securities	(83,333)	(58,089)	(24,643)	(29,906)
Realized Loss	(791,922)	(25,843)	(40,407)	(70,126)
Unrealized Loss	(16,567,229)	(8,598,905)	(7,292,290)	(6,634,115)
Interest Due and Accrued - Prior Year	<u>(190,386)</u>	<u>(214,961)</u>	<u>(242,649)</u>	<u>(304,000)</u>
Sub Total	<u>(17,632,870)</u>	<u>(8,897,798)</u>	<u>(7,599,988)</u>	<u>(7,038,147)</u>
<b>Net Investment Income</b>	<u>1,073,895</u>	<u>11,449,578</u>	<u>16,367,970</u>	<u>11,712,412</u>
<b>Income Required:</b>				
Annuity Savings Fund	42,316	32,595	25,347	34,117
Annuity Reserve Fund	190,498	166,068	147,400	139,393
Military Service Fund	4	4	4	4
Expense Fund	<u>850,356</u>	<u>795,944</u>	<u>721,885</u>	<u>663,812</u>
<b>Total Income Required</b>	<u>1,083,174</u>	<u>994,613</u>	<u>894,635</u>	<u>837,327</u>
Net Investment Income	<u>1,073,895</u>	<u>11,449,578</u>	<u>16,367,970</u>	<u>11,712,412</u>
Less: Total Income Required	<u>1,083,174</u>	<u>994,613</u>	<u>894,635</u>	<u>837,327</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$9,279)</u>	<u>\$10,454,966</u>	<u>\$15,473,335</u>	<u>\$10,875,085</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,521,631	1.1%
Fixed Income Securities	27,988,261	20.9%
Pooled Domestic Equity Funds	40,030,307	29.9%
Pooled International Equity Funds	7,101,501	5.3%
Pooled Alternative Investment Funds	1,811,599	1.4%
Pooled Real Estate Funds	6,863,071	5.1%
PRIT Core Fund	<u>48,611,394</u>	<u>36.3%</u>
<b>Grand Total</b>	<b>\$133,927,763</b>	<b><u>100.0%</u></b>

For the year ending December 31, 2015, the rate of return for the investments of the Concord Retirement System was 0.84%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Concord Retirement System averaged 8.17%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Concord Retirement System was 8.57%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Concord Retirement Board has not submitted any supplementary investment regulations to PERAC for approval.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Concord Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board relies upon their investment managers to closely monitor their investment strategy. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Concord Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### **Membership**

August 8, 1995

Membership in the retirement system is mandatory for part time and full time employees working 25 hours per week or more who are permanent employees.

#### **Creditable Service**

August 8, 1995

One year of creditable service will be allowed for permanent part time employees who work 25 hours per week for 180 school days or 52 weeks a year as long as part time employment remains essentially the same.

Upon a reduction in hours to less than 25 hours per week employees will receive credit for hours worked prorated on the basis of full time employment.

Creditable Service Part time service credit is prorated on the basis of full time employment (37.5, 50, 40 or 42 hours).

Cafeteria workers working 6½ hours per day/180 school days will be allowed one year of creditable service.

#### **Regular Compensation**

June 26, 2000

**\$30,000 Cap** - The Town of Concord's method for calculating the 2% supplemental assessment for employees earning more than \$30,000 annualized is derived by dividing the annual salary by 52.2 weeks (26.1 biweekly) periods. The Town of Concord uses the amount over \$574.71 weekly (biweekly \$1,149.42) to compute the 2% assessment. The employee receives the weekly pay, 1/52.2 of annual salary throughout the year. There is no adjustment at the end of the year. According to the Compensation and Classification Bylaws of the Town, the annual rate set by the Town Meeting for employees is controlling. Accrued payroll is recorded as a budget expense on a per day basis for the town's fiscal period July 1- June 30. The Concord Retirement Board hereby accepts the Town of Concord's method for the 2% assessment calculation.

#### **Miscellaneous**

July 1, 2014

#### **Correction of Errors under G.L. c. 32, § 20(5)(c)(2)**

In all cases of correction of an error by the Concord Retirement Board of an underpayment or non-payment of a pension or benefit to a member or beneficiary of the Concord Retirement System which results in a onetime retroactive payment of benefits, such payment shall include interest for such period of underpayment or non-payment at the rate annually determined for such period by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

In all cases of correction of an error by the Concord Retirement Board of an overpayment of a pension or benefit to a member or beneficiary of the Concord Retirement System, the amount of overpayment shall be due from the member or beneficiary, along with interest for said period of overpayment at the rate annually determined by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

Pursuant to the judgment of the Supreme Judicial Court in *Herrick v. Essex Regional Retirement Board*, 465 Mass. 801 (2013) and PERAC Memorandum #32/2013, said interest shall be deemed to be the actuarial equivalent of the adjustment to the pension or benefit as set forth in G.L. c. 32 § 20(5)(c)(2).

In cases where a member's contribution is insufficient, the member shall not be charged interest for the first 12 months following the discovery of the error. If total payment is not completed within 12 months after the error is discovered, actuarial interest will be applied to the unpaid balance until payment is completed.

In cases where contributions are withheld in error, the Board will refund the erroneous deductions and the member will receive that portion of the annuity savings account interest attributable to the excess contributions.

#### **Travel**

The Concord Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Concord>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Mary M. Barret	Indefinite term
Appointed Member:	Kerry A Lafleur	Term Expires: 5/31/18
Elected Member:	Peter J. Fulton, Chairman	Term Expires: 10/29/19
Elected Member:	Brian J. Whitney	Term Expires: 5/29/20
Appointed Member:	Arnold D. Roth	Term Expires: 12/31/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting as of January 1, 2016.

The actuarial liability for active members was	\$93,599,121
The actuarial liability for inactive members was	1,694,591
The actuarial liability for retired members was	<u>71,717,781</u>
The total actuarial liability was	\$167,011,493
System assets as of that date were (actuarial value)	<u>137,855,240</u>
The unfunded actuarial liability was	<u>\$29,156,253</u>
 The ratio of system's assets to total actuarial liability was	 82.5%
As of that date the total covered employee payroll was	\$29,941,179

The normal cost for employees on that date was	9.1% of payroll
The normal cost for the employer was	6.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.00% per annum
Rate of Salary Increase:	4.00% per annum

#### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2016	\$137,855	\$167,011	\$29,156	82.5%	\$29,941	97.4%
1/1/2015	\$126,817	\$156,552	\$29,735	81.0%	\$29,283	101.5%
1/1/2014	\$115,340	\$142,405	\$27,065	81.0%	\$27,514	98.4%
1/1/2012	\$94,996	\$123,798	\$28,802	76.7%	\$25,221	114.2%
1/1/2010	\$90,445	\$106,054	\$15,609	85.3%	\$24,097	64.8%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Retirement in Past Years</b>										
Superannuation	10	7	8	11	11	19	13	13	13	21
Ordinary Disability	1	1	1	0	0	0	1	0	0	0
Accidental Disability	1	1	0	0	0	0	1	0	0	0
<b>Total Retirements</b>	12	9	9	11	11	19	15	13	13	21
 Total Retirees, Beneficiaries and Survivors	251	254	260	255	255	263	267	269	277	277
 Total Active Members	452	499	479	475	471	499	496	507	519	493
<b>Pension Payments</b>										
Superannuation	\$2,779,842	\$2,921,855	\$2,987,075	\$3,149,067	\$3,392,296	\$3,489,185	\$3,818,181	\$3,960,142	\$4,323,966	\$4,711,854
Survivor/Beneficiary Payments	79,440	78,886	146,412	99,492	97,211	104,336	106,849	115,866	130,838	138,373
Ordinary Disability	123,189	125,581	112,938	94,011	96,173	98,350	99,278	89,278	91,130	81,363
Accidental Disability	448,854	448,854	580,222	560,013	558,794	527,488	520,946	529,665	521,891	496,132
Other	315,888	315,888	278,323	353,345	353,011	509,745	423,060	465,610	470,150	538,779
<b>Total Payments for Year</b>	<u>\$3,747,213</u>	<u>\$3,891,064</u>	<u>\$4,104,970</u>	<u>\$4,255,928</u>	<u>\$4,497,485</u>	<u>\$4,729,104</u>	<u>\$4,968,313</u>	<u>\$5,160,562</u>	<u>\$5,537,974</u>	<u>\$5,966,501</u>





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

November 7, 2018

Peter Fulton, Chairman  
Concord Retirement Board  
55 Church Street  
Concord, MA 01742

**REFERENCE:** Report of the Examination of the Concord Retirement Board for the four-year period from January 1, 2012 through December 31, 2015.

Dear Chairman Fulton:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Concord Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendations contained in that report. The examination also addressed other matters discussed at the completion of the audit. The results are as follows:

***1. The Audit Report cited a finding that a complete financial package was not provided to the Board on a monthly basis.***

**Follow-up Result:** We reviewed the Board meeting minutes subsequent to the issuance of the audit report through July 2018 and noted there were several months in which a complete financial package was not presented to the Board. This issue is not resolved.

***2. The Audit Report cited a finding regarding errors in member contributions of six school employees. One had no retirement deductions taken at all while four had errors in the calculation of their additional 2% deductions and one did not have any additional 2% withheld.***

**Follow-up Result:** We reviewed the current payroll for the above mentioned members and noted that their contributions are now being correctly withheld. However, after reviewing a report provided by the Board, we noted that there were seven school employees whose earnings exceeded \$30,000 in 2017 that did not contribute the additional 2% as required. In order for the system to calculate the 2% deduction, an indicator that the member earns over \$30,000 needs to be activated. It was determined that this was inadvertently overlooked for these members. The School Department will address this issue. This issue is partially resolved.



November 7, 2018


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The other matters discussed with the Board at the completion of the audit were also reviewed and resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Concord Retirement Board to correct some of the issues from the most recent examination of the system. PERAC auditors may conduct an additional follow-up visit to ensure progress is being made in those areas that have not been corrected at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

A handwritten signature in cursive script that reads "Joseph E. Connarton".

Joseph E. Connarton  
Executive Director